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PASS TO MCC MLONGI AND MKARBELING, STATE FOR WHA/BSC  
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SUBJECT: PARAGUAY'S THRESHOLD PROGRAM WORKING TO FORMALIZE  
CIUDAD DEL ESTE

¶1. (U) Ambassador and Paraguayan Minister of Industry and Commerce Martin Heisecke visited December 10 manufacturers in Ciudad del Este (CDE) supported by USAID's Millennium Challenge Corporation (MCC) Threshold Program. Ambassador and Heisecke visited Qin Yi America and Cortinerias del Paraguay, two manufacturers that exemplify the success of phase one of the Threshold Program in formalizing Ciudad del Este's economy and creating local job opportunities. Qin Yi America's owners -- who previously imported goods from China and re-exported to Brazil via commercial brokers -- legally registered the company this year, and opened a new facility that will employ over 200 workers and export up to USD eight million in bedcovers to Argentina and Brazil next year. Cortinerias, a Brazilian curtain manufacturer that registered with the government this year, will employ 120 workers and export approximately USD two million to Brazil next year.

¶2. (U) The Threshold Program helped Paraguay promote economic formalization by streamlining its business registration process and strengthening the Paraguayan Maquila Council's (CNIME) ability to attract foreign investment. (NOTE: CNIME, part of the Ministry of Industry and Commerce, governs the "Maquila" system. The "Maquila" system is a Mercosur-recognized tax incentive regime that stimulates domestic job growth through the value-added production of goods for export. END NOTE.) Qin Yi America and Cortinerias incorporated this year under Paraguay's One-Stop Shop for Business Registration (SUAE), and obtained approval from CNIME to operate under Paraguay's "Maquila" system. Component 9 of the Threshold Program helped the Paraguayan government establish SUAЕ, an inter-governmental agency that reduced the cost and number of days (from 74 days in 2006 to less than 15 this year) required to establish a business. Paraguay's increased ease of doing business gives informal businesses an incentive to formalize. (NOTE: Paraguay rose from 138th in 2006 to 66th this year in the World Bank's Doing Business Report's "Ease of Starting a Business" indicator. END NOTE.) Component 10 enhanced Paraguay's capacity to export by contributing to the establishment of 23 new manufacturing facilities (maquiladoras), increasing the total value of maquiladora exports from USD 68 million in 2006 to USD 178 million this year (an increase of 260 percent), and creating as many as 4,000 new jobs. The Threshold Program also provided the CNIME with training, promotional materials, and computing resources needed to assist new manufacturers. (NOTE: Threshold Program spending on components 9 and 10 was USD 3.1 million, less than 10 percent of total funding for the program. END NOTE.)

¶3. (U) COMMENT: Ambassador's visits to Qin Yi America and Cortinerias demonstrated the USG's continued support for Paraguay in its efforts to formalize its economy. These manufacturers illustrate that Paraguay can convert informal enterprises into legal businesses, stimulate job growth, increase exports, and shrink the informal economy. The Paraguayan government has made strides in formalizing CDE's

economy with the help of the Threshold Program. However, it still faces immense challenges formalizing the area's large informal economy. Alto Parana Governor Nelson Aguinalde, CDE Mayor Sandra McLeod, and Javier Zacarias Irun, CDE's previous mayor, told Ambassador during her December 9-10 visit that economic formalization is a top priority for their governments but that businesses often face disincentives to formalize such as bureaucratic red tape, corruption, and insufficient infrastructure. The Threshold Program is helping to formalize CDE's economy, but the Paraguayan government still needs to tackle many issues in this area.  
END COMMENT.

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